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Results-oriented annual report of the United Nations Capital Development Fund, 2004*

I. Introduction

1. The goal of the United Nations Capital Development Fund (UNCDF) is to help reduce poverty and achieve the Millennium Development Goals (MDGs) in the least developed countries (LDCs). It does so by pursuing three sub-goals, defined in the 2000-2003 strategic results framework (SRF).

(a) **Sub-goal 1** ***is to increase sustainable access of the poor to basic infrastructure and public services and to productive livelihoods opportunities through good local governance and enhanced natural resources management.***

(b) **Sub-goal 2** ***is to increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions (MFIs) and an enabling environment.***

(c) **Sub-goal 3** ***is to promote a financially sound organization, which develops and implements quality programming in local governance and microfinance.***

2. Since no new SRF was approved by the Executive Board in 2004, the 2000-2003 framework was automatically extended by one year and was used in preparing the results oriented annual report for 2004.

II. Financial analysis

3. In 2004, the performance of UNCDF continued to be affected by the low level of contributions to its core resources. These totalled $17.6 million, down from $26.9 million in 2003 and far below the target core contribution of $30 million called for by the Executive Board in its decision 2002/26. The problem of insufficient core funding has affected the capacity of UNCDF to scale up its

*The compilation of data required to present the Executive Board with the most current information has delayed submission of the present document.

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programmes in local development and micro finance and initiate new investments. The underlying causes for the gap between target and actual core resources prompted a reassessment of the UNCDF business model, which in turn led to Executive Board decision 2005/5.

4. Table 1, below, presents the total core and non-core expenditure profile. UNCDF expenditures fall into three basic categories: (a) management and administration; (b) programme support from HQs level; and (c) programme expenditure. The total programme expenditure from core and non-core resources in 2004 was $21.0 million, up from $16.7 million the year before. Non-core programme expenditures continued their positive trend, reaching $6.6 million in 2004. The key ratio of programme expenditure (including direct programme support from headquarters) to expenditures for 'management and administration', was a respectable 9:1.

5. Table 2 analyses the total expenditures for each UNCDF sub-goal. Local governance remained the primary focus of UNCDF expenditure in 2004, accounting for 70 per cent of the total. Total expenditure for the microfinance sub-goal was 17 per cent, with the upward trend in terms of share in total UNCDF expenditure expected to continue in 2005. The remaining 13 per cent was spent on organizational strengthening, notably for management and administration, and on the completion of the independent impact assessment.

6. Table 3 presents the rates of disbursal, which averaged 73 per cent of planned expenditure in 2004. Disbursement rates were affected by the uncertainty surrounding the transition to a new business model and the rapid decline in core resources, all of which coincided with the challenges involved with introducing the Atlas system.

Table 1: Total expenditures against core and non-core (in millions of dollars)

Expenditures	2001	% total	2002	% total	2003	% total	2004	% total	Grand total	% total
From core	34.9	82%	21.5	74%	10.8	47%	14.4	55%	107.1	79%
From non-core	1.6	3%	2.2	7%	5.9	26%	6.6	25%	11.7	9%
Total programme level expenditures	**36.5**	**85%**	**23.7**	**81%**	**16.7**	**73%**	**21.0**	**80%**	**118.8**	**88%**
Management and administration	3.2	7%	2.7	9%	3.2	14%	2.5	10%	12.8	9%
Programme support	2.8	6%	2.8	10%	3.0	13%	2.8	11%	12.0	9%
Total headquarters expenditures	**6.0**	**15%**	**5.5**	**19%**	**6.2**	**27%**	**5.3**	**20%**	**24.8**	**18%**
Grand total	42.5		29.2		22.9		26.3		143.6	

Table 2: Total expenditure by sub-goal (in millions of dollars)

Expenditures (in millions of dollars)	2001	% Total	2002	% Total	2003	% Total	2004	% Total	Grand Total	% Total
Sub goal 1: **Local governance**										
Project level	36.5		23.7		12.4		16.4		114.5	
HQ level	2.7		2.0		2.5		2.1		10.2	

Subtotal	**39.2**	**82%**	**25.7**	**83%**	**14.9**	**65%**	**18.5**	**70%**	**124.7**	**79%**
Sub-goal 2: **Microfinance**										
Project level	4.1		1.9		2.6		3.1		14.6	
HQ level	1.1		0.8		1.0		1.4		4.1	
Subtotal	**5.2**	**10%**	**2.7**	**9%**	**3.6**	**15%**	**4.5**	**17%**	**18.7**	**12%**
Sub-goal 3: **Organizational strengthening**										
Project level	0.9		-0.3		1.7				2.9	
HQ level	2.2		2.7		2.7		3.3		10.5	
Subtotal	**3.1**	**8%**	**2.4**	**8%**	**4.4**	**19%**		**13%**	**13.4**	**8%**
Grand total	**47.5**	**100%**	**30.8**	**100%**	**22.9**	**100%**	**26.3**	**100%**	**156.8**	

Table 3 Planned to actual expenditure variances

	Allocation (in $ millions)	**Expenditure (in $ millions)**	**Balance (in $ millions)**	**Variance (as a %)**
Management and administration (HQs)	3.3	2.5	0.8	24 %
Programme support (HQs)	3.2	2.8	0.4	13 %
Programme expenditures against core	20.4	14.4	6.0	29 %
Total	**26.9**	**19.7**	**7.2**	**27 %**

III. Programme achievements

A. Performance analysis for sub-goal 1: Local governance

7. *Some highlights:*

(a) Continued programme delivery and new programme formulations, with six new programmes approved and others in pipeline for approval in 2005

(b) Active research and development agenda;

(c) Major strategic review of UNCDF involvement in the local governance area, towards strengthening the reputation of the organization for excellence in local development; and

(d) Completion of the first phase of decentralization of technical advisers to the regional service centres in Dakar, Johannesburg and Bangkok;

8. Table 4 provides a cumulative performance assessment under sub-goal 1. The rates of achievement have been calculated according to the same methodology used to prepare the cumulative ROAR 2000-2003 for UNCDF.

Table 4: Performance by outcome indicator – sub-goal 1: Local governance

	Outcome	**2003**	**2004**
1.1.1.	Improved capacity of local communities and civil society organizations to participate in the planning of local development.	**86%**	**83%**
1.1.2.	Participatory planning processes are institutionalized at the level of local authorities	**74%**	**89%**
1.2.1.	Financing mechanisms, based on principles of good governance, are institutionalized at the local level	**64%**	**100%**
1.2.2.	Local authorities have improved access to sustainable funding sources	**61%**	**86%**

	Outcome	2003	2004
1.3.1.	Local capacity to deliver basic infrastructure and public services is increased	68%	73%
1.3.2.	Local capacity to maintain basic infrastructure and public services is increased	71%	86%
1.3.3.	Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services	84%	83%
1.4.1.	Capacity of the local authorities and the communities to manage the natural resources base in a sustainable manner is improved	76%	61%
1.5.1.	National policy and regulatory frameworks for decentralization and strengthened local government is improved	77%	67%
1.5.2.	Best practices of UNCDF pilot projects are replicated by other donors and central governments	77%	66%
	Average	74%	79%

Results

9. In the context of discussions with the Executive Board concerning the future business model for UNCDF, the organization undertook a strategic review of its niche and comparative advantages in local development. Three important issues emerged, which are reflected in the new UNCDF business plan (DP/2005/22), namely, the need to:

(a) continue expansion of programming to increase LDC coverage (up 26 to 40 countries by 2010);

(b) increase the levels of investment per programme using core and non-core resources in order to have a greater impact on the achievement of the MDGs; and

(c) consolidate technical and programming presence through the increased regionalization of operations.

10. In addition, the Local Governance Unit was 'rebranded' as UNCDF-Local Development. Projecting a focus on local development allows UNCDF to better reflect its comprehensive support through the local governance approach to local development, by piloting activities with local governments, ensuring alignment of these activities with sectoral and other forms of deconcentration, and supporting national decentralization policies and regulatory frameworks.

11. UNCDF approved six new programmes in the local development area with a total budget commitment of $10 million against core resources. These new approvals attracted significant non-core resources from other development partners with joint funding from UNDP.

12. The research and development agenda focused on the key thematic issues in local development: local economic development, public expenditure management, local service delivery, and natural resource management. The completion of the publication *Local Development Lessons and Guidelines*, summarizing the key lessons learned from UNCDF/UNDP joint experience in implementing local governance programmes, was a significant milestone. UNCDF visibility in the area of service delivery in rural areas was strengthened by a number of activities, including its co-hosting of the Conference on Pro-Poor Service Delivery and

Infrastructure in Asia with the Asian Development Bank in Manila in February 2004; the publication of 'lessons learned' by the two local development programmes in Mali (Timbuktu and Mopti); the completion of local economic development case studies in Uganda; and the documentation of lessons learned in gender mainstreaming in Uganda.

13. In 2004, UNCDF-Local Development built on existing partnerships and established new ones, with the Institute of Social Studies in the Netherlands, the Africa Development Bank, the International Monetary Fund, the UNDP Bureau for Crisis Prevention and Recovery, UN-Habitat, the United Nations Department of Economic and Social Affairs (DESA), and the World Bank. In addition, UNCDF technical expertise in the local development area provided technical advisory services in LDCs and non-LDCs on a cost recovery basis.

B. Performance analysis for sub-goal 2: Microfinance

14. *Some highlights*:

(a) In 2004, UNCDF approved six programmes applying its new sector development approach, with others in the pipeline for 2005;

(b) The International Year of Microcredit, jointly coordinated by UNCDF and DESA, was officially launched on 19 November 2005;

(c) Nineteen countries have improved their policy and enabling environment for microfinance services with support from UNCDF;

(d) Over six hundred and nine thousand people have received microfinance services from MFIs supported by UNCDF. In 2004, 597,487 people received microfinance services from the MFIs supported by the UNDP/UNCDF MicroStart programme, with women accounting for 97 per cent of clients; and

(e) Eleven out of 19, or fifty eight per cent, of the MFIs currently supported have achieved operational self-sufficiency.

15. Table 5 provides a cumulative performance assessment under Sub-Goal 2.

Table 5: Performance by outcome indicator – sub-goal 2: Microfinance

	Outcome	2003	2004
2.1.1.	MFIs reaching targets regarding number of active borrowers.	78%	40%
2.2.1.	Microfinance institutions are financially viable and provide high-quality services.	65%	75%
2.3.1.	Number of countries that have improved their enabling environments for supporting the development of microfinance.	17	19
	Average (2.1.1 and 2.2.1 only)	67%	63%

Note: SRF indicators 2.1.1 and 2.2.1 relate only to UNCDF investments, whereas 2.3.1 relates to both UNCDF and UNDP investments.

Results

16. UNCDF has identified the integration of microfinance into the formal financial sector as an effective means of contributing on a sustainable basis to poverty reduction and the achievement of the MDGs. In 2004 UNCDF approved six

programmes applying its new sector development approach, with others in the pipeline for 2005. Together with Cordaid (Netherlands), KfW Bankengruppe (Germany), and UNDP, UNCDF launched a $10.3 million programme to build the microfinance sector in Sierra Leone. Initial grants to four MFIs in Sierra Leone were approved in September 2004, and these MFIs have already increased their number of active clients from 13,000 to 21,282. Reporting for Sierra Leone and other sector development programmes is not included in the figures above, and will commence with the 2005 ROAR.

17. As part of the same approach, UNCDF supported the design of national microfinance strategies in Madagascar, Senegal, and Togo. The process gathered the key stakeholders, including the Government, (prime minister, finance minister), the Parliament, the MFIs, the Central Bank, the donors, and the technical service providers in a focused dialogue on sector constraints, opportunities and vision going forward. UNCDF facilitated the development of action plans and the design of national support programmes in the three countries, initially co-funded by UNDP and UNCDF, with the invitation to other partners to join.

18. The designation by the General Assembly of UNCDF, together with DESA, to serve as the focal point to coordinate the activities of the United Nations system for the International Year of Microcredit 2005 has provided the opportunity to highlight the contribution of microfinance to the MDGs and the building of inclusive financial sectors. In 2004, many Member States started to initiate national committees to implement activities related to the Year of Microcredit, resulting in 43 national committees by May 2005. A group of high-level patrons and emissaries for the Year were identified and engaged in a number of activities, including a successful launch of the Year on 19 November 2004. Other advocacy activities included two projects aimed at celebrating global micro-entrepreneurship: the web site www.shopmicro.org, which is selling products made by microfinance clients, and the Global Micro-entrepreneurship Awards programme, which organizes contests to identify and honour low-income entrepreneurs.

19. Two important substantive projects related to the Year were initiated in 2004. In partnership with the Bretton Woods institutions, the Financing for Development Office of DESA, the International Fund for Agricultural Development, and the International Labour Organization, UNCDF has facilitated a multi-stakeholder consultative process bringing together national governments, central banks and other financial institution supervisory bodies, multilateral institutions, civil society, the private sector and stakeholders in the microfinance industry around the *Blue Book on Building Inclusive Financial Sectors for Development*. The Blue Book, scheduled for dissemination in November 2005, provides an unparalleled opportunity to explore ways to the expand equitable access to financial services in developing and transition economies. The data project brings together a group of expert statisticians and researchers from the Bretton Woods Institutions, the United Nations, Governments of countries such as the United Kingdom and the West African nations under the Central Banks of West African States, and the private sector to address current data gaps and anticipate future data needs. The project also builds agreement on the best way to benchmark how many people have access to financial services in the world and to ascertain the quality of that access.

20. UNCDF continued to serve as the policy advisor to the UNDP group to ensure consistent application of the best microfinance practices. In addition, through the MicroStart programme, UNCDF has partnered with UNDP in 21 countries, more than half of which are LDCs. Collectively, by the end of 2004 the 68 MFIs supported had increased their active clients by over 450,000 and made significant

progress towards sustainability. The Consultative Group to Assist the Poor (CGAP) review of the UNDP microfinance portfolio found that MicroStart is the most successful model in the entire UNDP portfolio, and that the design and technical management of UNCDF were key factors behind its success. The CGAP review noted that the MicroStart's 'hit rate' of successful projects was 69 per cent, and that this represented strong performance not only in comparison with other donors, but also in absolute terms.

C. Performance analysis for sub-goal 3: Organizational strengthening

21. *Some highlights:*

(a) Corporate vision has developed to expand UNCDF investments in both local development and microfinance within the LDCs;

(b) Programme-based achievements, both in terms of implementation and new formulations, continued, though both were affected by the low level of predictable, multi-year resources to finance the UNCDF mandate;

(c) UNCDF continued its struggle to remain a viable organization financially; and

(d) Staff morale was adversely affected by the uncertainties concerning UNCDF.

Results

22. The year 2004 was a challenging one for both the organization and its staff. Sound corporate management was affected by the vacancy of the Executive Secretary position, combined with the long gestation of a new business model. Further, there was a serious deterioration in staff morale, which adversely affected the capacity of UNCDF to attract and retain high-quality personnel.

23. In the area of accountability for results, UNCDF finalized, in early 2004, the independent impact assessment that was presented to the Executive Board at its annual session in June. Efforts towards policy impact and learning benefited from the lessons learned through the impact assessment as well as from the independent external programme evaluations. In 2004, six out of the planned 10 external evaluations – all of local development programmes – were conducted. The number of project-level evaluations was reduced because of the resources devoted to the independent impact assessment and associated follow-up, and justifiable operations-related rescheduling or cancellation of planned evaluations.

24. At the same time, there were positive developments: client satisfaction, as expressed by LDC governments and UNDP country offices, remained at a high level. Also, the financial efficiency of the organization improved, resulting in a respectable 9:1 ratio of programme delivery costs to staff support costs. The anticipated expansion of the portfolio, as outlined in the new UNCDF business plan, will further increase the financial health of the organization. It is hoped that by the end of 2005 UNCDF will be a vibrant organization, with all funding, organizational and recruitment issues resolved and a core staff committed to the organization for the next biennium (2006-2007).